

BUSS & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
CLINTON TOWNSHIP, MICHIGAN

# **CHESTERFIELD TOWNSHIP LIBRARY**

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**Chesterfield, Michigan**  
**FINANCIAL REPORT**  
**WITH SUPPLEMENTAL INFORMATION**  
**PREPARED IN ACCORDANCE WITH GASB 34**  
**December 31, 2005**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name CHESTERFIELD TOWNSHIP LIBRARY	County MACOMB
Fiscal Year End 12/31/2005	Opinion Date 05/04/2006	Date Audit Report Submitted to State 6/19/06	

We affirm that:

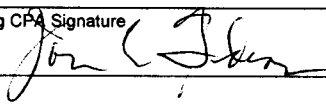
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BUSS & COMPANY, P.C.		Telephone Number 586-263-8200	
Street Address 42550 GARFIELD, SUITE 105		City CLINTON TWP.	State MI
		Zip 48038	
Authorizing CPA Signature 		Printed Name JOHN E. GIDEON	License Number 1101007016

CHESTERFIELD TOWNSHIP LIBRARY  
Chesterfield, Michigan  
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## INDEPENDENT AUDITOR'S REPORT

May 4, 2006

Board of Trustees  
Chesterfield Township Library  
Chesterfield, Michigan

Honorable Members:

We have audited the accompanying financial statements of the Chesterfield Township Library, a component unit of the Charter Township of Chesterfield, as of December 31, 2005, and for the year then ended. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I A, the financial statements present only the Chesterfield Township Library and are not intended to present fairly the financial position and changes in financial position for the year then ended of Charter Township of Chesterfield, County of Macomb, Michigan, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Chesterfield Township Library as of December 31, 2005, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BUSS & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
CLINTON TOWNSHIP, MICHIGAN

Board of Trustees  
Chesterfield Township Library  
May 4, 2006  
Page 2

The management's discussion and analysis on pages 3 through 4 and budgetary comparison schedule on page 17, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully,

BUSS & COMPANY, P.C.

  
Certified Public Accountants

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CHESTERFIELD TOWNSHIP LIBRARY  
Chesterfield, Michigan  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2005

Using this Annual Report

This annual report consists of three parts - *Management's discussion and analysis* (this section), the *basic financial statements*, and *required supplemental information*. The basic financial statements include information that presents two different views of the Library:

- The *government-wide financial statements* provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.
- The governmental fund financial statements include information on the Library under the modified accrual method. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplemental information* that further explains and supports the information in the financial statements.

Condensed Financial Information

In a condensed format, the table below shows a comparison of key financial information for the current year to the prior year.

	<u>2005</u>	<u>2004</u>
Current Assets	\$2,054,509	\$1,963,972
Capital Assets	<u>514,398</u>	<u>439,890</u>
Total Assets	<u>\$2,568,907</u>	<u>\$2,403,862</u>
Other Liabilities	<u>\$1,109,154</u>	<u>\$1,039,349</u>
Total Liabilities	<u>\$1,109,154</u>	<u>\$1,039,349</u>
Net Assets:		
Invested in capital assets, net of related debt	\$ 514,398	\$ 439,890
Unrestricted	<u>945,355</u>	<u>924,623</u>
Total Net Assets	<u>\$1,459,753</u>	<u>\$1,364,513</u>
Revenue:		
Property taxes	\$ 986,214	\$ 925,988
Other	<u>125,991</u>	<u>157,313</u>
Total Revenue	<u>\$1,112,205</u>	<u>\$1,083,301</u>
Expenses - Library Services	<u>1,038,463</u>	<u>1,037,935</u>
Net Revenue	\$ 73,742	\$ 45,366
Transfers	<u>21,498</u>	<u>55,886</u>
Change in Net Assets	<u>\$ 95,240</u>	<u>\$ 101,252</u>

(Continued)

CHESTERFIELD TOWNSHIP LIBRARY  
Chesterfield, Michigan  
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
December 31, 2005

Condensed Financial Information (Continued)

- The Library's net assets increased by \$95,240 this year. The primary reason for the increase is the continued growth of the Library's property tax base, which increased 6.5% from the prior year.
- The Library's primary source of revenue is from property taxes, which represents 89% of total revenue.
- Total expenses were 93% of total revenue for 2005. Salaries amount to approximately 41% of total expenses. Benefits amount to 17% of total expenses.

The Library's Fund

Our analysis of the Library's fund is included on pages 7 and 9. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as special property tax millages. All of the Library's activities are reported in a single fund.

The fund balance of the Library increased during the current year by \$26,734. The increase exceeded the budgeted decrease of \$216,248 by \$242,986. Revenues exceeded budgeted amounts by \$111,982 due primarily to property taxes increasing more than expected. Actual expenditures were less than budgeted expenditures by \$109,506 due to salaries and benefits not increasing as much as expected.

Library Budgetary Highlights

Over the course of the year, the Library revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. Amendments made to budgeted expenses related primarily to relocation of the Library's facilities during the year. The unfavorable variance in the capital outlay account relates to items purchased through the Suburban Library Cooperative's centralized purchasing account and the recording of donated items not considered during the budgeting process.

Capital Assets

At the end of the fiscal year, the Library had \$514,398 invested in building improvements, furniture and fixtures, equipment, and books and materials. The Library added \$256,227 in new collection items consisting of new books, various audio/visual materials and computer equipment, shelving, and building improvements. The total amount of collection materials disposed had a cost basis of \$102,822, which had a net book value of \$ -0-. In addition, furniture and building improvements with a cost of \$113,938 and a net book value of \$83,777 were abandoned when the Library relocated its facilities.

Economic Factors and Considerations for Next Year

The Library's tax base continues to increase with the growth of the Township. The Library needs to continue monitoring the budget to plan for and accommodate yearly increases in health care benefits and employee costs in order to maintain a stable and dedicated staff while being fiscally conservative with revenues and expenditures.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library Director, at 50560 Patricia Avenue, Chesterfield Township, Michigan 48051.

BUSS & COMPANY, P.C.  
 CERTIFIED PUBLIC ACCOUNTANTS  
 CLINTON TOWNSHIP, MICHIGAN

CHESTERFIELD TOWNSHIP LIBRARY  
Chesterfield, Michigan  
STATEMENT OF NET ASSETS  
December 31, 2005

ASSETS

Cash and cash equivalents	\$ 222,763
Investments	952,485
Taxes receivable	866,882
Due from other governmental units	7,029
Prepays and other assets	5,350
Capital assets	<u>514,398</u>
Total Assets	<u>\$2,568,907</u>

LIABILITIES

Accounts payable and accrued liabilities	\$ 8,130
Accumulated employee leave benefits	37,318
Deferred revenue	<u>1,063,706</u>
Total Liabilities	<u>\$1,109,154</u>

NET ASSETS

Invested in capital assets, net of related debt	\$ 514,398
Unrestricted	<u>945,355</u>
Total Net Assets	<u>\$1,459,753</u>

See accompanying notes to financial statements.



BUSS & COMPANY, P.C.  
 CERTIFIED PUBLIC ACCOUNTANTS  
 CLINTON TOWNSHIP, MICHIGAN

CHESTERFIELD TOWNSHIP LIBRARY  
Chesterfield, Michigan  
STATEMENT OF ACTIVITIES  
Year Ended December 31, 2005

<u>FUNCTION/PROGRAM:</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSE)</u>
		<u>CHARGES FOR</u>	<u>OPERATING GRANTS</u>	<u>REVENUE AND CHANGES</u>
		<u>SERVICES</u>	<u>AND CONTRIBUTIONS</u>	<u>IN NET ASSETS -</u>
				<u>GOVERNMENTAL</u>
				<u>ACTIVITIES</u>
Governmental Activities:				
Library services/operations	<u>\$1,038,463</u>	<u>\$ 34,091</u>	<u>\$ 51,400</u>	<u>(\$ 952,972)</u>
<u>GENERAL REVENUES:</u>				
Property taxes				\$ 986,214
State revenues				87,521
Interest on investments				36,756
Gain (loss) on disposal of assets				( 83,777)
Total General Revenues				<u>\$1,026,714</u>
NET REVENUE - GOVERNMENTAL ACTIVITIES				\$ 73,742
TRANSFER FROM CHARTER TOWNSHIP OF CHESTERFIELD				<u>21,498</u>
CHANGE IN NET ASSETS				\$ 95,240
<u>NET ASSETS:</u>				
Beginning of year				<u>1,364,513</u>
End of year				<u>\$1,459,753</u>

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.  
 CERTIFIED PUBLIC ACCOUNTANTS  
 CLINTON TOWNSHIP, MICHIGAN

CHESTERFIELD TOWNSHIP LIBRARY  
Chesterfield, Michigan  
COMPARATIVE BALANCE SHEET  
December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash	\$ 222,763	\$ 178,202
Investment	952,485	946,192
Taxes receivable	866,882	828,016
Prepaid expenditures	4,743	6,219
Due from other governmental units	7,029	5,247
Due from others	<u>607</u>	<u>96</u>
Total Assets	<u>\$2,054,509</u>	<u>\$1,963,972</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES:</u>		
Accounts payable	\$ 8,130	\$ 13,278
Deferred revenue - Grants	3,500	762
Deferred Revenue - Property taxes	<u>1,060,206</u>	<u>993,993</u>
Total Liabilities	<u>\$1,071,836</u>	<u>\$1,008,033</u>
<u>FUND BALANCE:</u>		
Reserved for prepaid expenditures and material purchases	\$ 12,109	\$ 9,659
Designated	631,745	565,595
Unreserved, Undesignated	<u>338,819</u>	<u>380,685</u>
Total Fund Balance	<u>\$ 982,673</u>	<u>\$ 955,939</u>
Total Liabilities and Fund Balance	<u>\$2,054,509</u>	<u>\$1,963,972</u>

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
CLINTON TOWNSHIP, MICHIGAN

CHESTERFIELD TOWNSHIP LIBRARY  
Chesterfield, Michigan  
RECONCILIATION OF FUND BALANCE TO THE STATEMENT OF NET ASSETS  
For The Year Ended December 31, 2005

TOTAL FUND BALANCE - MODIFIED ACCRUAL BASIS \$ 982,673

Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources and are not reported in the funds 514,398

Accumulated employee leave benefits are not due and payable in the current  
period and therefore are not reported in the funds ( 37,318)

NET ASSETS - FULL ACCRUAL BASIS \$1,459,753

See accompanying notes to financial statements.

BUSS & COMPANY, P.C.  
 CERTIFIED PUBLIC ACCOUNTANTS  
 CLINTON TOWNSHIP, MICHIGAN

CHESTERFIELD TOWNSHIP LIBRARY  
Chesterfield, Michigan  
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
For The Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>REVENUES:</u>		
Property taxes	\$ 986,214	\$ 925,988
Penal fines	54,992	39,252
State aid	32,529	32,641
Charges, fees, and fines	28,542	41,264
Interest and investment earnings	36,756	13,762
Donations	30,034	11,402
Grants and reimbursements	21,366	14,412
Miscellaneous	<u>5,549</u>	<u>4,580</u>
Total Revenues	<u>\$1,195,982</u>	<u>\$1,083,301</u>
<u>EXPENDITURES:</u>		
Salaries and wages	\$ 425,030	\$ 447,421
Benefits	178,402	203,508
Supplies	31,488	31,492
Contractual services	133,768	122,438
Insurance	12,140	11,204
Utilities	28,719	18,572
Maintenance	1,259	999
Lease	72,866	74,628
Miscellaneous	7,052	6,652
Capital outlay	<u>300,022</u>	<u>105,322</u>
Total Expenditures	<u>\$1,190,746</u>	<u>\$1,020,519</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ 5,236	\$ 62,782
<u>OTHER FINANCING SOURCES:</u>		
Transfer from Charter Township of Chesterfield	<u>21,498</u>	<u>55,886</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	\$ 26,734	\$ 118,668
FUND BALANCE - JANUARY 1	<u>955,939</u>	<u>837,271</u>
FUND BALANCE - DECEMBER 31	<u>\$ 982,673</u>	<u>\$ 955,939</u>

See accompanying notes to financial statements.

CHESTERFIELD TOWNSHIP LIBRARY  
Chesterfield, Michigan  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
For The Year Ended December 31, 2005

NET CHANGE IN FUND BALANCE - MODIFIED ACCRUAL BASIS \$ 26,734

Amounts reported in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation expense.

Depreciation expense	(\$ 97,942)
Capital outlay - in excess of \$2,000	<u>256,227</u>

Total	158,285
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Governmental funds report proceeds from fixed asset disposals in the statement of activities, losses on disposals are reported.

( 83,777)

Expenses for employee leave benefits are recorded when earned in the statement of activities:

Reversal of employee leave benefits earned in 2004	\$ 31,316
2005 earned employee leave benefits	<u>( 37,318)</u>

Total Effect of Employee Leave Benefits	( 6,002)
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CHANGE IN NET ASSETS - FULL ACCRUAL BASIS \$ 95,240

See accompanying notes to financial statements.

CHESTERFIELD TOWNSHIP LIBRARY  
Chesterfield, Michigan  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Chesterfield Township Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

**A. GOVERNMENTAL REPORTING ENTITY**

The Library is located in the Charter Township of Chesterfield, Michigan and is governed by an elected six-member board. The Library was formed under P.A. 164 of 1877 and remains a fund of the Township. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board and include only the results of operations of the Library.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in two parts - invested in capital assets, net of related debt; and unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues, and are reported instead as general revenue.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Library reports all of its activities in a single fund on the modified accrual basis.

(Continued)

CHESTERFIELD TOWNSHIP LIBRARY  
Chesterfield, Michigan  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2005

C. ASSETS, LIABILITIES AND FUND EQUITY

**Cash and Investments** - Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value.

**Receivables and Payables** - Property taxes receivable represent uncollected property taxes levied on December 1, 2005.

Chesterfield Township property tax is levied on each December 1<sup>st</sup> on the taxable value of property (as defined by state statutes) located in the Township.

Although the Library's 2005 property tax is levied and collectible on December 1, 2005, it is the Library's policy to recognize revenue from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 taxable valuation of the Township totals approximately \$1.6 billion, on which ad valorem taxes levied consisted of .6465 mills for Library operations, raising \$1,061,000 for Library operating purposes. This amount is recognized in the financial statements as taxes receivable with an offsetting credit to deferred revenue. Taxes receivable has been reduced for amounts received during 2005.

**Capital Assets** - Capital assets are defined by the Library as assets with an initial cost of more than \$2,000 and an estimated useful life in excess of two years. Due to the significance of the Library's annual acquisition of Library books and materials and the shelf life on most materials extended beyond two years, annual acquisitions of books and materials are treated as capitalized assets in order to spread their cost over their estimated useful life. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Furniture and equipment	5-20 years
Improvements	25 years
Library books and materials	5-7 years

**Compensated Absences** - Employees of the Library earn leave benefits on an annual basis. Employees are required to use a portion of the leave each year and are compensated for any remaining balance each December. A liability exists for annual leave pay which is earned during 2005 to be used in 2006 because the Library has a policy to pay unused amounts upon separation. A liability for annual leave benefits has been accrued in the government-wide financial statements.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

(Continued)

CHESTERFIELD TOWNSHIP LIBRARY  
Chesterfield, Michigan  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2005

C. ASSETS, LIABILITIES AND FUND EQUITY (Continued)

Reservations of equity show amounts that are not appropriate for expenditure or are legally restricted for specific uses.

Designations of equity are used to show the amounts within unreserved equity which are intended to be used for specific purposes, but are not legally restricted. Designated equity is intended for the following purpose:

General Fund	\$631,745	Provide funding for building or future expansion
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II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETS

An annual operating budget on the modified accrual basis of accounting consistent with generally accepted accounting principles is formally adopted for the Library. The budget can be amended by approval of the majority of the Board of Trustees. Amendments are presented to the Board at their regular meetings. All annual appropriations lapse at fiscal year end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year ended December 31, 2005, the Library incurred expenditures in certain budgeted line items which were in excess of the amounts appropriated as follows:

<u>GENERAL FUND:</u>	<u>BUDGET</u> <u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>	<u>BUDGET</u> <u>VARIANCE</u>
Capital outlay	\$269,920	\$300,022	\$ 30,102

III. DETAILED NOTES

A. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Library to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Library in accordance with Public Act 20 of 1943 (as amended) authorizes investments in U.S. Treasuries, U.S. Agencies, instrumentalities, certificates of deposit, commercial paper (meeting certain rating and maturity requirements), investment pools and mutual funds.

(Continued)



CHESTERFIELD TOWNSHIP LIBRARY  
Chesterfield, Michigan  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2005

A. **DEPOSITS AND INVESTMENTS** (Continued)

At year-end the Library's deposits and investments were reported in the basic financial statements in the following categories:

Cash and cash equivalents	\$ 222,763
Investments	<u>952,485</u>
Total	<u>\$1,175,248</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ 144,529
Investments in securities, mutual funds and similar vehicles	952,485
Petty cash and cash on hand	<u>78,234</u>
Total	<u>\$1,175,248</u>

The Library's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk.

At year end, bank deposits were reflected in the accounts of the bank at \$163,232. Of that amount, \$45,710 was covered by federal depository insurance and \$117,522 was uninsured and uncollateralized. The Library believes that due to dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution it deposits Library funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Credit Risk** - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law limits investments in commercial paper to the top two ratings. The Library's investment policy does not place additional limitations relating to credit risk. As of year end, the Library held the following investment:

	<u>FAIR VALUE</u>	<u>RATING</u>
Bank investment pool	\$952,485	Not Rated

(Continued)

CHESTERFIELD TOWNSHIP LIBRARY  
 Chesterfield, Michigan  
 NOTES TO FINANCIAL STATEMENTS, CONTINUED  
 December 31, 2005

**B. CAPITAL ASSETS**

A summary of changes in capital assets for the year ended December 31, 2005 follows:

	<u>BEGINNING</u> <u>BALANCE</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>ENDING</u> <u>BALANCE</u>
<u>CAPITAL ASSETS BEING DEPRECIATED:</u>				
Improvements	\$107,414	\$132,360	\$107,414	\$132,360
Furniture and equipment	81,797	13,259	6,524	88,532
Library books and material	<u>709,403</u>	<u>110,608</u>	<u>102,822</u>	<u>717,189</u>
	\$898,614	\$256,227	\$216,760	\$938,081
Accumulated depreciation	( 458,724)	( 97,942)	( 132,983)	( 423,683)
Net Book Value	<u>\$439,890</u>	<u>\$158,285</u>	<u>\$ 83,777</u>	<u>\$514,398</u>

**C. LEASES**

The Library leases its current facility under an operating lease dated April 23, 2005. Monthly rent payments are \$8,800. The Library is also responsible for insurance and utilities. Rent expense for the year ended December 31, 2005 was \$72,866. The lease term ends October 15, 2010.

The future minimum annual lease expense under this agreement is as follows:

2006	\$106,200
2007	108,900
2008	112,500
2009	116,100
2010	<u>89,100</u>
Total	<u>\$532,800</u>

**IV. RISK MANAGEMENT**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and workers' compensation benefits provided to employees. The Library has purchased commercial insurance to cover potential claims.

**V. DEFERRED COMPENSATION PLAN**

The Library has adopted a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or financial hardship.

The assets of the plan are held in trust as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries and may not be diverted to any other use. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Library's financial statements.

(Continued)

CHESTERFIELD TOWNSHIP LIBRARY  
Chesterfield, Michigan  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
December 31, 2005

**VI. DEFINED BENEFIT PENSION PLAN**

The Library participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit plan that covers all full-time employees. The system provides retirement benefits to plan members. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy**

The obligation to contribute to and maintain the MERS for these full-time employees was established by the Chesterfield Township Library's Board of Trustees and requires a contribution from the employees of 3% of gross wages and a contribution from the employer initially set at 10.74% of participating employees' gross wages.

**VII. MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN**

**Annual Pension Cost and Three-year Trend Information**

The Library began participating in the MERS plan in 2004. During 2004, \$129,290 was transferred from the defined contribution plan to MERS for those employees who changed plans. For the years ended December 31, 2005 and 2004, the Library's annual pension cost of \$56,522 and \$86,623, respectively, for the plan was equal to the Library's required contribution and lump sum payments of \$70,000 and \$27,014, respectively, to reduce the Library's unfunded liability. The fair market value of the plan's assets approximated \$340,151 at December 31, 2005. The 2005 annual required contribution was determined as part of the initial actuarial valuation as of March 1, 2005, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8% investment rate of return, and (b) projected salary increases of 4.5% per year plus percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

Additional actuarial information for the MERS is as follows:

	<u>DECEMBER 31, 2004</u>
Actuarial value of assets	\$242,233
Actuarial accrued liability (AAL)	269,247
Unfunded AAL (UAAL)	27,014
Funded ratio	90%
Covered payroll	243,926
UAAL as a percentage of covered payroll	11%

As described above, the Library's participation in the plan was initiated during 2004. As the actuarial valuation for the year ended December 31, 2005 was not available as of the audit date, only one year of trend information is disclosed during the current year.

BUSS & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
CLINTON TOWNSHIP, MICHIGAN

## REQUIRED SUPPLEMENTAL INFORMATION

CHESTERFIELD TOWNSHIP LIBRARY  
Chesterfield, Michigan  
BUDGETARY COMPARISON SCHEDULE  
For The Year Ended December 31, 2005

Schedule No. 1

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u> <u>AMOUNTS</u> <u>(BUDGETARY BASIS)</u>	<u>VARIANCE WITH</u> <u>FINAL BUDGET</u> <u>POSITIVE</u> <u>(NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<u>REVENUES:</u>				
Property taxes	\$ 955,000	\$ 955,000	\$ 986,214	\$ 31,214
Penal fines	38,000	38,000	54,992	16,992
State aid	32,000	32,000	32,529	529
Charges, fees and fines	33,500	33,500	28,542	( 4,958)
Interest and investment earnings	8,000	8,000	36,756	28,756
Donations	3,000	3,000	30,034	27,034
Grants and reimbursements	13,000	13,000	21,366	8,366
Miscellaneous	1,500	1,500	5,549	4,049
Total Revenues	<u>\$1,084,000</u>	<u>\$1,084,000</u>	<u>\$1,195,982</u>	<u>\$111,982</u>
<u>EXPENDITURES:</u>				
Salaries and wages	\$ 476,000	\$ 476,000	\$ 425,030	\$ 50,970
Benefits	175,000	202,014	178,402	23,612
Supplies	30,700	32,700	31,488	1,212
Contractual services	130,300	147,530	133,768	13,762
Insurance	12,000	15,584	12,140	3,444
Utilities	22,300	30,300	28,719	1,581
Maintenance	1,500	2,000	1,259	741
Lease	115,000	115,000	72,866	42,134
Miscellaneous	7,200	9,200	7,052	2,148
Capital outlay	114,000	269,920	300,022	( 30,102)
Total Expenditures	<u>\$1,084,000</u>	<u>\$1,300,248</u>	<u>\$1,190,746</u>	<u>\$109,502</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	(\$ 216,248)	\$ 5,236	\$221,484
<u>OTHER FINANCING SOURCES:</u>				
Transfers	-	-	21,498	21,498
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>\$ -</u>	<u>(\$ 216,248)</u>	<u>\$ 26,734</u>	<u>\$242,982</u>

See accompanying notes to financial statements.

# BUSS & COMPANY, P.C.

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MEMBERS  
The American Institute of  
Certified Public Accountants

The Michigan Association of  
Certified Public Accountants

May 4, 2006

Board of Trustees  
Chesterfield Township Library  
Chesterfield Township, Michigan

Re: Supplemental System and Internal  
Control Comments and Recommendations  
in conjunction with audit for the year  
ended December 31, 2005

Honorable Members:

In planning and performing our audit of the financial statements of Chesterfield Township Library for the year ended December 31, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. The following items are presented that could affect Chesterfield Township Library's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Internal control comments are made encompassing the concept that the cost of any internal control system should not be greater than the benefits obtained. The accomplishment of recommendations that are of a legal compliance versus internal control nature are not covered by the same cost concept, but are governed solely by legal requirements.

The Library was formed under P.A. 164 of 1877. It remains a fund of the Charter Township of Chesterfield even though the Library has an independent board. The Library and the Township have properly adopted a system for the receipt and expenditure of Library funds through the Township's Treasurer's Office.

### BUDGETING

The Library has established an effective budgeting process which is used to control expenditures. We have reviewed the budgets for compliance with the Uniform Budgeting and Accounting Act P.A. 621 of 1978. The act requires that expenditures in a specific appropriations account beyond the amount of the original budget (general appropriations act), be approved by the Board with a transfer or supplemental appropriation. During the year ended December 31, 2005, the Library incurred expenditures in a budgeted category which were in excess of the amounts appropriated by the Board. The specific budget variance is detailed in note II of the annual financial report.

### FUND BALANCE

During 2005, the Library's General Fund revenues exceeded expenditures by \$26,734. As a result, General Fund equity increased to \$982,673 at December 31, 2005.

A portion of the fund equity, \$12,109, is reserved for prepaid expenses and material purchases. The board has designated \$631,745 for construction of a building or future expansion, and \$338,819 is unreserved and undesignated. By maintaining an appropriate fund equity, the Library is able to meet unforeseen circumstances without affecting the level of programs for the year. The Library's unreserved, undesignated fund equity is equal to approximately 28% of expenditures, or 15 weeks of operation.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the administration of the Chesterfield Township Library. This restriction is not intended to limit distribution of this report which, upon acceptance by the Board of Trustees, is a matter of public record.

We appreciate the cooperation of the Library staff and trustees during our audit.

Respectfully submitted,

BUSS & COMPANY, P.C.



Certified Public Accountants